BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MIKE GLEASON, Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

IN THE MATTER OF ARIZONA PUBLIC SERVICE COMPANY'S APPLICATION FOR APPROVAL OF MODIFICATIONS AND FINAL APPROVAL OF ITS NON-RESIDENTIAL DEMAND-SIDE MANAGEMENT PROGRAMS.	DOCKET NO. E-01345A-05-0477 **COMMENTS ON RECOMMENDED OPINION AND ORDER**

Arizona Public Service Company ("APS" or "Company") is submitting these Comments in response to the Commission's Staff Report ("Staff Report"), on the Company's 13 Month Filing for Approval of Modifications and Final Approval of its Non-Residential Demand-Side Management Programs ("NR DSM") and the accompanying Recommended Opinion and Order ("ROO") that was filed in this docket on November 12, 2008. Overall, APS is in agreement with Staff's recommendations for final approval of the NR DSM programs that are the remaining component of the Company's 13-Month Filing that was made on March 26, 2007. The Company believes that the implementation of its NR DSM programs is well underway, and that these programs provide benefits to both our customers, in reducing their energy costs, and to the Company. As Staff recognized in its Staff Report, APS's NR DSM programs "have delivered kilowatt-hour ("kWh") and kilowatt ("kW") savings at a very low cost to APS ratepayers.[1]

[1] *See* Staff Report at pg. 49. APS's overall unit cost per kWh, including Measurement and Evaluation Research and Performance Incentive costs is approximately one cent per kWh. *See* Staff Report at pg. 48.

In this filing, APS explains its objection to Staff's recommendation that the Company should reduce the customer incentive for custom NR DSM measures, as there has been no specific justification or analysis to warrant the specific amount of reductions that Staff has recommended. Secondly, the Company briefly addresses Staff's concerns about the marketing and promotion of its NR DSM programs. Finally, APS clarifies a reporting requirement for the record.

Reduction in Custom-Efficiency Measure Incentive

Staff has recommended that the amount of the incentive paid to customers who install custom energy efficiency measures should be reduced. This recommendation is incorporated into the ROO, which states that "[t]he custom-efficiency incentive of $0.11 per annual kWh saved shall be reduced to $0.105 per annual kWh saved on July 1, 2009, and shall be further reduced to $0.10 per annual kWh saved on January 1, 2011, such reduction to be applied in all APS DSM programs to which the custom-efficiency incentive applies".[2]

APS believes this recommendation is premature and arbitrary. The fundamental policy issue is how to balance the dual objectives for DSM incentive programs of minimizing the cost to APS customers while maximizing the participation in the programs. While APS agrees with the objective of achieving the maximum amount of energy efficiency at the minimum cost to APS customers, the Company also believes that reducing the custom measure incentive, as suggested in this recommendation, should be guided by customer actions and results that are based on program evaluations. Subjectively setting lower custom incentive levels to take effect at an inconsequential time poses the risk of reducing customer participation in these NR DSM programs. Rather, the Company recommends that any future reduction in custom incentive levels be guided by ongoing Measurement and Evaluation Research ("MER")

[2] ROO at pg. 10, Ordering Paragraph No. 12.

based on an assessment of customer behavior to determine when the incentives could be reduced without significantly impacting participation in the programs.

APS agrees with Staff that the goal of DSM programs is to move the market toward energy efficiency and that incentives are provided to make the installation of energy-efficiency measures cost effective enough for the customer to implement.[3] Furthermore, it is APS's position that the NR DSM programs have not been in place long enough to justify lowering the customer incentive level without affecting program participation. The custom efficiency incentive level was designed based on a two-year payback to customers; lowering this incentive without careful analysis may well result in lower customer participation. For those projects that are on the margin of a two-year payback, it is possible that those customers would not have invested in energy efficiency measures had the incentive been less.

For that reason, a decrease in customer incentive amounts should only be done after sufficient analysis to determine the appropriate time and amount of such a reduction. The Company's NR DSM programs are not yet at full maturity, and as such, it is premature to lower incentive levels without empirical data that would support such reductions. Even Staff has recognized that reductions should be made "cautiously."[4] For these reasons, APS recommends that the incentives be adjusted as-needed, based upon future MER findings. Therefore, Ordering Paragraph No. 12, at page 10 of the ROO, should be deleted.

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[3] *See* Staff Report at 25.
[4] *Id.*

Marketing Considerations

APS has no objection to Staff's recommendation that the Company file a Marketing Progress Report that will provide a comprehensive description of its program marketing activities; address whether additional marketing efforts are necessary to increase customer participation; and explain the amount of expenditures for marketing and customer incentives that were paid during November and December 2007. The Company will make such a filing within ninety days of the Commission decision in this docket. Nonetheless, in light of concerns raised by Staff regarding these matters, APS believes it is judicious to briefly address the amount of marketing APS has done to promote its NR DSM programs, and the questions raised regarding the timing of the disbursement of some of its marketing and customer incentive payments. The Company wants to assure the Commission that significant efforts have been made to market the NR DSM programs, and that all expenditures that were made at the end of 2007 were legitimate and reasonable.

Staff expressed concern about the adequacy of marketing efforts, based the Company's marketing expenditures from program start-up through October 2007, because it appeared that these expenditures were significantly under-budget. In response to a data request issued by Staff in this docket entitled request for "Program Expenditures to Date" through October 31, 2007, APS reported $64,000 as "Program Marketing". However, APS also spent another $1.45 million that was included in the $5.2 million reported in the "Program Implementation" category, which was used for marketing expenses incurred by KEMA, the Company's implementation contractor.

APS has undertaken an extensive marketing effort to promote the NR DSM programs and to encourage customers to participate. The Company's "Solutions for Business" marketing has been targeting non-residential customers in a number of ways, including placing advertisements in numerous publications, such as the *Phoenix*

Business Journal, *HVACR Today,* and *Electric Times*; developing the Solutions for Business website (which website includes a toll free phone line, email contacts and downloadable documents), making presentations at various seminars and conferences (such as the US Green Building Council and City of Phoenix Hispanic Small Business seminars); publishing numerous news releases, news articles, and project case studies to promote NR DSM programs; and leveraging existing marketing channels through the training of APS Key Account Managers, Call Center, Division Offices and Community Development personnel on Solutions for Business Programs and ways to promote them. At the end of 2007, APS made several expenditures for a number of marketing services. The marketing expenses included: radio ads throughout the state; print ads in the *Arizona Republic*, *HVACR Today*, *Electric Times,* and *AZRE Magazine*; articles and print ads in Chamber of Commerce newsletters in various cities/towns throughout Arizona that were targeted to small businesses; and printing for flyers, application packets, fact sheets and case studies. These items will be detailed in the Marketing Progress Report that will be filed by the Company.

Staff also questioned the amount of incentive payments that were made in the final months of 2007, the final months of the initial DSM funding period.[5] As noted in the Staff Report, Commission approval of the DSM programs was delayed, so that none of the programs began at the start of 2005, and in fact, the NR DSM programs did not begin until March of 2006.[6] As a result, the Company had to make great efforts to comply with the Commission's order to implement programs with this shortened timeframe. It should be no surprise that APS made an increased effort to encourage customers who had applied for incentives to complete projects by year end 2007. The Company emphasizes that all incentives paid were for energy efficient measures

[5] In Decision No. 67744, the Commission ordered APS to spend $48 million on DSM programs during the years 2005 through 2007.
[6] *See* Staff Report at 50.

approved by the Commission and for only those projects that were installed and completed prior to the end of 2007.

Clarification on Reporting Requirement

Staff has identified additional information that it recommends the Company report in its DSM Semi-Annual Progress Reports. The ROO states:

> "in its DSM Semi-Annual Progress Reports, APS shall continue to report its MWh savings resulting from DSM measures installed during the reporting period in terms of "lifetime" MWh savings over the expected life of the measures; and additionally, it shall report MWh savings for the six-month reporting period; and it shall report both lifetime and reporting period MWh savings by program not only for the period, but year-to-date and DSM program-to-date,"[7]

APS is in agreement with the requirement to include program-to-date savings, in addition to year-to-date savings, and will modify future Semi-Annual Reports accordingly. However, regarding the six-month reporting period savings recommendation, APS believes that is unnecessary and potentially misleading. Based on discussions with Staff, the purpose of this recommendation is to have the ability to compute energy savings for a year by totaling data from the two Semi-Annual Reports to arrive at a "first-year annual savings" for each program. APS believes that the currently reported annual savings can already be added from both Semi-Annual Reports to arrive at the "first-year annual savings," because each Semi-Annual Report contains the annual savings for measures installed in that six-month period. Therefore, the Company is only clarifying for the record that if the Company were to report only the six-month savings from measures installed in a particular six-month period and then added those together from the two Semi-Annual Reports, only half of the annual

[7] *See* ROO at pg. 11, Ordering Paragraph No. 19.

savings resulting from all of the measures installed during the year would be accounted for.[8]

Conclusion

In conclusion, APS generally supports Staff's recommendation regarding its NR DSM programs. However, instead of arbitrarily reducing the customer incentive for custom-efficiency measures, APS believes that a careful analysis should be undertaken to determine the appropriate amount of reduction without jeopardizing customer participation. Therefore, APS requests that the Commission omit Ordering Paragraph No. 12 from its decision in this matter.

RESPECTFULLY SUBMITTED this 21st day of November, 2008.

PINNACLE WEST CAPITAL CORPORATION
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[8] The example below is intended to clarify our position on this reporting issue. Assume that one CFL was installed on January 1, 2008; another CFL was installed on July 1, 2008; and that each CFL will provide 40 kWh of annual savings compared to a standard incandescent bulb over the course of 1 full year. Currently the Company would report 40 kWh as "annual first year" savings for the bulb installed on January 1 in the January - June Semi-Annual Report, and another 40 kWh as "annual first year" savings for the bulb installed on July 1 in the July - December Semi-Annual Report. This results in a total of 80 kWh "annual first year" savings from the installation of these two bulbs. If the Staff recommendation is interpreted literally, the Company would report 20 kWh as "6-month" savings for the bulb installed on January 1 in the January - June Semi-Annual Report, and another 20 kWh as "6-month" savings for the bulb installed on July 1 in the July - December Semi-Annual Report. This incorrectly shows a total of 40 kWh "annual first year savings" from the installation of these two bulbs because it misses the other half of the "first year annual" savings for the installation of these two bulbs.

ORIGINAL and 13 COPIES of the foregoing filed this 21st day of November, 2008 with:

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